

TRUTH IN SAVINGS ACT (TISA)

OVERVIEW

The Truth in Savings Act (TISA) and the Federal Reserve Board's implementing Regulation DD require the clear and uniform disclosure of the rates of interest, annual percentage yields, fees, and other account terms for deposit accounts offered by depository institutions. These disclosures assist consumers in meaningful comparisons between the competing claims of depository institutions with regard to deposit accounts.

Examination Objective(s)

The objective of the examination is to determine that the financial institution has policies and procedures in place to ensure compliance with all provisions of the regulation.

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DEFINITION(S)

A deposit account at a depository institution that is held by or offered to a consumer. It includes time, demand, savings, and negotiable order of withdrawal accounts.

Account

NOTE: For the purposes of the advertising requirements in Section 230.8, the term also includes an account at a depository institution that is held by or on behalf of a deposit broker, if any interest in the account is held by or offered to a consumer.

DEFINITION(S)

(cont'd)

**Annual
Percentage Yield
(APY)**

A percentage rate reflecting the total amount of interest paid on an account, based on the interest rate and the frequency of compounding for a 365-day period, calculated in accordance with Appendix A of the regulation.

**Average Daily
Balance Method**

The application of a periodic rate to the average daily balance in the account for that period. The average daily balance is determined by adding the full amount of principal in the account for each day of the period and dividing that figure by the number of days in the period.

Bonus

A premium, gift, award, or other consideration worth more than \$10 (whether in the form of cash, credit, merchandise, or any equivalent) given or offered to a consumer during a year in exchange for opening, maintaining, renewing, or increasing an account balance. The term **does not** include interest, other consideration worth \$10 or less given during a year, the waiver or reduction of a fee, or the absorption of expenses.

Consumer

A natural person who holds an account primarily for personal, family, or household purposes, or to whom such an account is offered. The term **does not** include a natural person who holds an account for another in a professional capacity.

**Daily Balance
Method**

The application of a daily periodic rate to the full amount of principal in the account each day.

**Periodic
Statement**

A statement setting forth information about an account (other than a time account or passbook savings account) that is provided to a consumer on a regular basis four or more times a year.

DEFINITION(S)
(cont'd)

**Stepped-Rate
Account**

An account that has two or more interest rates that take effect in succeeding periods and are known when the account is opened.

**Tiered-Rate
Account**

An account that has two or more interest rates that are applicable to specified balance levels.

**Variable-Rate
Account**

An account in which the interest rate may change after the account is opened, unless the institution contracts to give at least 30 calendar days advance written notice of rate decreases.

**MANAGEMENT
OR POLICY-
RELATED
PROCEDURES**

| Examination Procedures | |
|------------------------|--|
| 1. | Determine the extent and adequacy of the financial institution's policies, procedures, and practices for ensuring compliance with Regulation DD. <i>NOTE: This should include a determination as to whether the financial institution has an adequate internal mechanism in place to monitor the effectiveness of its compliance with the regulation.</i> |
| 2. | Determine the extent and adequacy of the training provided to those individuals responsible for compliance with Regulation DD. |
| 3. | Review the policies and procedures of the financial institution to ensure that account disclosure information is provided to new or potential deposit account customers within the appropriate time frames. |
| 4. | Determine if the financial institution's procedures ensure subsequent disclosure of any change in terms required to be disclosed under Section 230.4(b) and that exceptions to notice requirements are limited to those set forth in Section 230.5(a)(2). |
| 5. | Determine if the financial institution's method of paying interest is permitted by the regulation. This should include a review of when interest begins to accrue for deposits to the account. (230.7) |

**MANAGEMENT
OR POLICY-
RELATED
PROCEDURES
(cont'd)**

✓**TIP:** Review System Defaults requested during initial examination activities.
Refer to the Initial Examination Procedures section of this manual.

6. Determine if the institution's advertising policies are consistent and meet the requirements of Regulation DD. (230.8)

NOTE: Refer to the Advertising and Public Notices section of this manual.

**TRANSACTION-
RELATED
PROCEDURES**

Account Disclosures

1. Determine the types of deposit accounts offered to consumers.

Include accounts usually offered to commercial customers that may occasionally be offered to consumers, as well as the characteristics for each type of deposit account (for example, bonuses offered, minimum balances, balance computation method, frequency of interest crediting, fixed or variable rates, fees imposed, frequency of periodic statements, etc.).
2. Review each deposit account disclosure to determine whether the contents are accurate and include all information required by the regulation. (230.4(b))
3. Determine whether the account disclosures reflect the legal obligation between the consumer and the financial institution. (230.3(b))
4. Determine whether the financial institution provides the required deposit account disclosures on a timely basis in connection with the opening of an account or upon request. (230.4(a))

Notice of Change in Terms and Notice Before Maturity

1. Determine whether the financial institution sends out change in terms notices to consumers at least 30 calendar days in advance of the effective date of any change in a term that may reduce the APY or that adversely affects the consumer.

**TRANSACTION-
RELATED
PROCEDURES
(cont'd)**

- Review a sample of these notices to ensure that they include all required information
- Verify that these notices are sent on a timely basis

(230.5(a))

2. Determine whether the financial institution sends out notices before maturity for time accounts.

- Review a sample of these notices to ensure that they include all required information
- Verify that these notices are sent on a timely basis

(230.5(b))

Refer to the Prematurity Disclosures for Time Accounts chart in this section.

Periodic Statement Disclosures

1. Determine the accounts for which the financial institution sends a periodic statement and the frequency with which they are sent.

NOTE: A financial institution is not required to send a periodic statement; however, if it does, it must comply with the provisions of Section 230.6.

2. Review a sample of periodic statements from each of the different types of deposit accounts.

NOTE: The examiner should obtain samples of completed periodic statements for each deposit account that illustrate the various types of transactions and activities permitted on the account.

3. Determine if the periodic statements include all required disclosures and that they are accurate. (230.6)

Payment of Interest

**TRANSACTION-
RELATED
PROCEDURES
(cont'd)**

1. Review a sample of each of the different types of deposit accounts to determine whether the financial institution's method of paying interest is one of the methods permitted under Section 230.7.

2. Determine if interest begins to accrue not later than the business day specified for interest bearing accounts under Section 229.14 of Regulation CC and that interest accrues until the day funds are withdrawn.

NOTE: If the financial institution calculates interest on the collected balance (as indicated by management on the Compliance Information Request), all necessary documentation for verifying when interest for the selected sample began accruing should have been requested during the initial stages of the examination.

3. Determine that accrued interest is not forfeited when a consumer closes their account prior to crediting of the interest unless this practice is specified in the initial account disclosures.

Enforcement Actions

1. While Regulation DD does not address the issue of requiring monetary adjustments or reimbursement, the Act does provide incentive to financial institutions which voluntarily make appropriate compensations to customer accounts.

To avoid the possibility of civil liability, the institution should:

- Notify account holders of noncompliance with Regulation DD;
- Make the necessary adjustments to ensure affected account holders are not liable for either excessive fees or charges or any fee or charge that was not disclosed; and receive the appropriate amount of interest for the disclosed APY and conditions; and
- Act within 60 days of discovering the error and before an account holder files suit or notifies the bank of its noncompliance with Regulation DD.

Thus, it is in the financial institution's best interest to promptly notify account holders of any errors that are identified and promptly adjust those errors. Should a financial institution refuse to notify the account holder of the error and make necessary adjustment, Regional Directors may, in appropriate circumstances, pursue formal enforcement action under Section 8 of the FDI Act seeking restitution and/or civil monetary penalties.

Record Retention

1. Review a sample of the financial institution's records to determine whether the institution has maintained evidence of compliance for a minimum of 2 years after disclosures are required to be made or action is required to be taken. (230.9)

WORKPAPER STANDARDS

Appropriate workpapers must be completed when reviewing compliance with the TISA. Refer to the Workpaper Standards Appendix in this manual.

| PREMATURITY DISCLOSURES FOR TIME ACCOUNTS | | |
|---|---|--|
| | Automatically Renewable ("Rollover") Time Accounts | Nonautomatically Renewable ("Nonrollover") Time Accounts |
| ≤ 1 Month | No <u>advance</u> notice required. Notice must be sent within a "reasonable time" <u>after</u> renewal <u>if</u> any change made to disclosed term (other than interest rate and annual percentage yield). | No notice required. |
| > 1 Month but ≤ 1 Year | <p><u>Timing:</u> (A) 30 (calendar) days before maturity; <u>or</u> (B) 20 (calendar) days before end of grace period, if a grace period of at least 5 (calendar) days is provided.</p> <p><u>Content:</u> Interest rate and APY for new account (or fact that rates have not been determined, when they will be, and telephone number for consumer to call for rates), and <u>either</u>: (A) date of maturity of existing and new account, and any change in terms; <u>or</u> (B) full disclosure for account (Section 4(b)) and date of maturity for existing account.</p> | |
| > 1 Year | <p><u>Timing:</u> Same as for accounts greater than one month and not more than one year.</p> <p><u>Content:</u> Full disclosures for account (Section 4(b)) and date of maturity for existing account.</p> | <p><u>Timing:</u> 10 (calendar) days before maturity.</p> <p><u>Content:</u> Maturity date, and whether or not interest will be paid after maturity.</p> |



**FDIC LAW,
REGULATIONS,
& RELATED
ACTS**

Applicable Rules

Federal Reserve Board's Regulation DD, Volume 2, Page 7429

Federal Reserve Board's Regulation DD Official Staff Interpretations, Volume 2, Page 7459

Truth in Savings Act, Volume 3, Page 8550.10

**Advisory
Opinions**

Regulation DD: Sufficiency of Proposed Disclosures of Annual Percentage Yields for Tiered-Rate Accounts, Letter #93-56, dated 8/13/93, Volume 1, Page 4792

Regulation DD: Tiered-Rate Accounts and Disclosure Statement Requirements, Letter #93-67, dated 9/27/93, Volume 1, Page 4809

Regulation DD: Truth in Savings: Disclosures in Advertisements Soliciting Deposits, Letter #94-54, dated 11/30/94, Volume 1, Page 4908

**Statements of
Policy**

None

**DCA
MEMORANDA**

Enforcement Actions under Truth in Savings, Transmittal #DCA-95-017, dated 6/16/95



**FINANCIAL
INSTITUTION
LETTERS (FIL)**

Federal Reserve Regulation DD (Truth in Savings), Letter #12-95, dated 2/6/95

Final Rules Implementing the Truth in Savings Act, Letter #72-92, dated
10/19/92

New Examination Procedures, Computer Software for Compliance with Truth in
Savings Act, Letter #50-93, dated 7/21/93
